## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### C26 BUSINESS COMBINATIONS

### ACQUISITIONS AND DIVESTMENTS

**Acquisitions**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Intangible assets | 11,627 | 15,648 | 404 |
| Property, plant and equipment | 325 | 1,257 | 15 |
| Goodwill | 16,917 | 163 | 512 |
| Other assets | 4,266 | 4,422 | 124 |
| Provisions, including post–employment benefits | –127 | –812 | –135 |
| Other liabilities | –6,227 | –2,689 | –55 |
| Purchase of minority holdings | 45 | 89 | 345 |
| Cash and cash equivalents | **2,387** | 1,781 | 16 |
| **Total purchase price** | **29,213** | 19,859 | 1,226 |
| Less: | | | |
| Cash and cash equivalents | 2,387 | 1,781 | 16 |
| Consideration payable | 534 | — | — |
| **Cash flow effect** | **26,292** | 18,078 | 1,210 |

In 2007, Ericsson made acquisitions with a cash flow effect amounting to SEK 26,292 million (SEK 18,078 million in 2006), primarily:

- **Redback:** as per January 23, Ericsson purchased all shares in redback inc., based in Santa Clara, USA, with the purpose to strengthen the network offering for multiple services over the IP network. Redback's products, multi–service routers, provide the intelligence needed to adapt the quality of a service to the screen and the resolution that the user can reach with their access at any particular time. Redback has over 500 carrier customers in more than 80 countries and employs about 800 people. Net sales for Redback amounted to approximately SEK 1,600 million for the period January 23–December 31, 2007. Had the acquisition been made as per January 1, 2007, additional net sales of SEK 57 million would have been recognized and the operating income would have been reduced by SEK 141 million. The main reasons for that part of the acquisition costs are recognized as goodwill, representing 53 percent of total assets acquired, are that strong future synergies are estimated and also the value of the acquired assembled work force. Transaction costs for the acquisition amounted to SEK 82 million.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**REDBACK BUSINESS**

| Net assets acquired | Book value | Fair value adjustments | Fair value |
|---|---|---|---|
| **Intangible assets** | | | |
| Intellectual property rights | — | 3,272 | 3,272 |
| Brands | — | 609 | 609 |
| Customer relationships | — | 1,575 | 1,575 |
| Goodwill | — | 9,354 | 9,354 |
| Other assets and liabilities | | | |
| Inventory | 96 | — | 96 |
| Property, plant and equipment | 153 | — | 153 |
| Other assets | 2,625 | — | 2,625 |
| Other liabilities | –768 | –2,122 | –2,890 |
| **Total purchase price** | | | **14,794** |
| Less: | | | |
| Cash and cash equivalents | 952 | — | 952 |
| Consideration payable | — | 275 | 275 |
| **Cash flow effect** | | | **13,567** |

The determination of purchase consideration allocation and fair values of assets acquired and liabilities assumed is based on preliminary appraisal; therefore, these values may be subject to minor adjustments.

- **Tandberg:** As per may 1, Ericsson purchased all shares in Tandberg television ASA in Norway. The aim was to further strengthen Ericsson's position as an end–to–end supplier within IPTV, which is judged to be the central point in the future digital home. Tandberg's strength is coding and compression of TV signals to gain maximum benefit from the bandwidth available while retaining the highest possible picture quality. Tandberg employs approximately 870 people with headquarters in Southampton, UK, and Atlanta, USA. Net sales for Tandberg amounted to approximately SEK 1,400 million for the period May 1–December 31, 2007. Had the acquisition been made as per January 1, 2007, additional net sales of SEK 586 million would have been recognized and the operating income would have been reduced by SEK 389 million.

  The main reasons for that part of the acquisition costs are recognized as goodwill, representing 45 percent of total assets acquired, are that strong future synergies are estimated and also the value of the acquired assembled work force. Transaction costs for the acquisition amounted to SEK 69 million.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### TANDBERG BUSINESS

| Net assets acquired | Book value | Fair value adjustments | Fair value |
|---|---|---|---|
| **Intangible assets** | | | |
| Intellectual property rights | — | 2,712 | 2,712 |
| Brands | — | 276 | 276 |
| Customer relationships | — | 1,486 | 1,486 |
| Goodwill | — | 5,442 | 5,442 |
| **Other assets and liabilities** | | | |
| Inventory | 227 | — | 227 |
| Property, plant and equipment | 124 | — | 124 |
| Other assets | 1,938 | — | 1,938 |
| Post–employment benefits | −62 | — | −62 |
| Other liabilities | −924 | −1,432 | −2,356 |
| **Total purchase price** | | | **9,787** |
| Less: | | | |
| Cash and cash equivalents | 742 | — | 742 |
| **Cash flow effect** | | | **9,045** |

The determination of purchase consideration allocation and fair values of assets acquired and liabilities assumed is based on preliminary appraisal; therefore, these values may be subject to minor adjustments.

- **LHS:** As per October 1, Ericsson purchased 87.47 percent of the shares in LHS AG in Germany. The company provides telecom billing and customer care systems for the post–paid wireless, wireline and IP telecom markets. LHS employs approximately 550 people with headquarter in Frankfurt. Net sales for LHS amounted to approximately SEK 250 million and the operating income amounted to SEK 40 million for the period October 1—December 31, 2007. Had the acquisition been made as per January 1, 2007, additional net sales of SEK 657 million would have been recognized and the operating income would have been reduced by SEK 17 million.

  The main reasons for that part of the acquisition costs are recognized as goodwill, representing 38 percent of total assets acquired, are that strong future synergies are estimated and also the value of the acquired assembled work force. Transaction costs for the acquisition amounted to SEK 26 million.

### LHS BUSINESS

| Net assets acquired | Book value | Fair value adjustments | Fair value |
|---|---|---|---|
| **Intangible assets** | | | |
| Intellectual property rights | — | 367 | 367 |
| Brands | — | 43 | 43 |
| Customer relationships | — | 777 | 777 |
| Goodwill | — | 1,293 | 1,293 |
| **Other assets and liabilities** | | | |
| Property, plant and equipment | 32 | — | 32 |
| Other assets | 866 | — | 866 |
| Minority interest | −82 | | −82 |
| Other liabilities | −252 | −380 | −632 |
| **Total purchase price** | | | **2,664** |
| Less: | | | |
| Cash and cash equivalents | 249 | — | 249 |
| **Cash flow effect** | | | **2,415** |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The determination of purchase consideration allocation and fair values of assets acquired and liabilities assumed is based on preliminary appraisal; therefore, these values may be subject to minor adjustments.

- **Entrisphere:** As per February 12, Ericsson acquired Entrisphere inc., a company providing fiber access technology, based in Santa Clara, USA. The acquisition strengthens Ericsson's fixed broadband access portfolio and its position in converged networks. Fiber technology is essential for next generation access networks and for High Definition IPTV and other IP–based services with high demand for bandwidth and cost efficiency. Entrisphere employs about 140 persons.

- **Mobeon:** As per march 15, Ericsson announced the acquisition of the Swedish company Mobeon AB, the world leader in IP messaging components for mobile and fixed networks. Ericsson already owned 21 percent of the shares, and Mobeon has been Ericsson's partner for messaging equipment, such as voicemail, video mail and unified messaging, both for mobile and fixed networks. With this acquisition, Ericsson will be more competitive in the messaging market and can accelerate the development of new messaging architecture. Mobeon employs approximately 130 persons.

- **Drutt:** As per June 28, Ericsson acquired Drutt Corporation. Drutt is the world leading provider of Service Delivery Platform solutions that enables mobile operators to mobilize and charge for any content to any device, over any delivery channel. Drutt employs approximately 85 persons.

- **HyC:** As per December 20, Ericsson acquired Hyc Group, a leading Spanish company in TV consultancy and systems integration. The acquisition further strengthens Ericsson's position in the services and multimedia domains as a system integrator of IPTV solutions. HyC employs approximately 110 persons.

### OTHER

| Net assets acquired | Book value | Fair value adjustments | Fair value |
|---|---|---|---|
| **Intangible assets** | | | |
| Intellectual property rights, brands and other intangible assets | | 510 | 510 |
| Goodwill | — | 828 | 828 |
| **Other assets and liabilities** | | | |
| Inventory | 34 | — | 34 |
| Property, plant and equipment | 16 | — | 16 |
| Other assets | 868 | — | 868 |
| Provisions, including post–employment benefits | −65 | — | −65 |
| Purchase of minority holdings | 45 | — | 45 |
| Other liabilities | −121 | −147 | −268 |
| **Total purchase price** | | | **1,968** |
| Less: | | | |
| Cash and cash equivalents | 444 | — | 444 |
| Consideration payable | — | 259 | 259 |
| **Cash flow effect** | | | **1,265** |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### DIVESTMENTS

| Net assets disposed of | 2007 | 2006 | 2005 |
|---|---|---|---|
| Property, plant and equipment | 13 | 253 | 3 |
| Other assets | 498 | 2,946 | 76 |
| Provisions, including post– employment benefits | –19 | –89 | –8 |
| Other liabilities | –234 | –2,079 | –30 |
| | 258 | 1,031 | 41 |
| Gains from divestments | 280 | 2,945 | 16 |
| Less: | | | |
| Cash and cash equivalents | 454 | 890 | 27 |
| Cash flow effect | 84 | 3,086 1) | 30 |

1) The amount mainly relates to the sale of the Defense business.

## C27 LEASING

### LEASING WITH THE COMPANY AS LESSEE

Assets under finance leases, recorded as property, plant and equipment, consist of:

### FINANCE LEASES

| | 2007 | 2006 |
|---|---|---|
| **Acquisition costs** | | |
| Real estate | 1,743 | 1,767 |
| Machinery | 4 | — |
| Other equipment | — | 5 |
| | 1,747 | 1,772 |
| **Accumulated depreciation** | | |
| Real estate | –589 | –544 |
| Machinery | –2 | — |
| Other equipment | — | –1 |
| | –591 | –545 |
| **Accumulated impairment losses** | | |
| Real estate | –80 | –349 |
| **Net carrying value** | 1,076 | 878 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2007, future minimum lease payment obligations for leases were distributed as follows:

| | Finance leases | Operating leases |
|---|---|---|
| 2008 | 171 | 3147 |
| 2009 | 146 | 2,026 |
| 2010 | 138 | 1,682 |
| 2011 | 118 | 1,293 |
| 2012 | 92 | 1,015 |
| 2013 and later | 1,210 | 2,732 |
| **Total** | **1,875** | **11,895** |
| Future finance charges[1] | −748 | n/a |
| **Present value of finance lease liabilities** | **1,127** | **11,895** |

1) Average effective interest rate on lease payables is 5,80 percent.

Expenses in 2007 for leasing of assets were SEK 2,878 (2,873) million, of which variable expenses were SEK 8 (11) million. The leasing contracts vary in length from 1 to 21 years.

The Company's lease agreements normally do not include any contingent rents. In the few cases they occur it relates to charges for heating, linked to the oil price index. Most of the leases of real estate contain terms of renewal, giving the right to prolong the agreement in question for a predefined period of time. All of the finance leases of facilities contain purchase options. Only a very limited number of the Company's lease agreements contain restrictions on stockholders' equity or other means of finance. The major agreement contains a restriction stating that the Parent Company must maintain a stockholders' equity of at least SEK 25 billion.

### LEASES WITH THE COMPANY AS LESSOR

Leasing income mainly relates to income from sublease of real estate. These leasing contracts vary in length from 1 to 13 years.

At December 31, 2007, future minimum payment receivables were distributed as follows:

| | Finance leases | Operating leases |
|---|---|---|
| 2008 | — | 147 |
| 2009 | — | 107 |
| 2010 | — | 77 |
| 2011 | — | 45 |
| 2012 | — | 12 |
| 2013 and later | — | 67 |
| **Total** | **—** | **455** |
| Unearned financial income | — | n/a |
| Uncollectible lease payments | — | n/a |
| **Net investments in financial leases** | — | n/a |

Leasing income in 2007 was SEK 160 (149) million.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### C28 TAX ASSESSMENT VALUES IN SWEDEN

| | 2007 | 2006 |
|---|---|---|
| Land and land improvements | **58** | 60 |
| Buildings | **265** | 235 |
| **Total** | **323** | 295 |

### C29 INFORMATION REGARDING EMPLOYEES, MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT

### NUMBER OF EMPLOYEES

*AVERAGE NUMBER OF EMPLOYEES*

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Western Europe[1] | **32,118** | **8,961** | **41,079** | 31,212 | 8,697 | 39,909 |
| Central and Eastern Europe, Middle East and Africa | **5,483** | **1,596** | **7,079** | 4,063 | 1,128 | 5,191 |
| North America | **4,329** | **1,225** | **5,554** | 3,252 | 998 | 4,250 |
| Latin America | **4,779** | **1,058** | **5,837** | 3,324 | 740 | 4,064 |
| Asia Pacific | **10,952** | **2,844** | **13,796** | 8,298 | 2,774 | 11,072 |
| **Total**[2] | **57,661** | **15,684** | **73,345** | 50,149 | 14,337 | 64,486 |

1) *Of which Sweden* — ***14,128*** ***4,618*** ***18,746*** *14,517* *4,792* *19,309*

2) *Of which EU* — ***33,563*** ***9,351*** ***42,914*** *32,133* *8,989* *41,122*

*NUMBER OF EMPLOYEES AT YEAR-END*

| Employees by region | 2007 | 2006 |
|---|---|---|
| Western Europe[1] | **41,517** | 38,432 |
| Central and Eastern Europe, Middle East and Africa | **7,329** | 6,063 |
| North America | **5,498** | 4,138 |
| Latin America | **6,547** | 4,498 |
| Asia Pacific | **13,120** | 10,650 |
| **Total**[2] | **74,011** | 63,781 |

1) *Of which Sweden* — ***19,781*** *19,094*

2) *Of which EU* — ***42,387*** *39,991*

| Employees per segment | 2007 | 2006 |
|---|---|---|
| Networks | **44,661** | 40,761 |
| Professional Services | **19,790** | 15,697 |
| Multimedia | **9,560** | 7,323 |
| **Total** | **74,011** | 63,781 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*EMPLOYEES BY GENDER AND AGE AT YEAR END 2007*

| | Female | Male | Percent of total |
|---|---|---|---|
| Under 25 years old | 667 | 2,275 | 4% |
| 26–35 years old | 5,850 | 20,275 | 35% |
| 36–45 years old | 6,360 | 22,763 | 39% |
| 46–55 years old | 2,374 | 9,733 | 17% |
| Over 55 years old | 711 | 3,003 | 5% |
| **Percent of total** | **22%** | **78%** | **100%** |

*NUMBER OF EMPLOYEES RELATED TO COST OF SALES AND OPERATING EXPENSES*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cost of sales | **33,904** | 27,682 | 22,477 |
| Operating expenses | **40,107** | 36,099 | 33,578 |
| **Total** | **74,011** | 63,781 | 56,055 |

*EMPLOYEE MOVEMENTS*

| | 2007 | 2006 |
|---|---|---|
| Head count at year–end | **74,011** | 63,781 |
| Departed employees | **6,657** | 6,432 |
| Employees joining the company | **16,887** | 14,158 |
| Temporary employees | **1,415** | 1,219 |

**REMUNERATION**

*WAGES AND SALARIES AND SOCIAL SECURITY EXPENSES*

| | 2007 | 2006 |
|---|---|---|
| Wages and salaries | **34,111** | 32,219 |
| Social security expenses | **10,660** | 10,602 |
| *Of which pension costs* | ***3,074*** | *2,709* |

Amounts related to the President and CEO and the Group management Team are included.

*WAGES AND SALARIES PER GEOGRAPHICAL AREA*

| | 2007 | 2006 |
|---|---|---|
| Western Europe[1] | **22,278** | 22,296 |
| Central and Eastern Europe, Middle East and Africa | **2,520** | 1,914 |
| North America[3] | **4,168** | 3,503 |
| Latin America | **1,431** | 1,333 |
| Asia Pacific | **3,714** | 3,173 |
| **Total**[2] | **34,111** | 32,219 |

| | | 2007 | 2006 |
|---|---|---|---|
| 1) | *Of which Sweden* | ***11,025*** | *11,467* |
| 2) | *Of which EU* | ***22,603*** | *22,531* |
| 3) | *Of which United States* | ***2,904*** | *2,244* |

Remuneration in foreign currency has been translated to SEK at average exchange rates for the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*REMUNERATION TO BOARD MEMBERS AND PRESIDENTS IN SUBSIDIARIES*

| | 2007 | 2006 |
|---|---|---|
| Salary and other remuneration | **266** | 222 |
| *Of which annual variable remuneration* | *43* | *38* |
| Pension costs | **28** | 20 |

*BOARD MEMBERS, PRESIDENTS AND GROUP MANAGEMENT BY GENDER*

| As per December 31 | 2007 | | 2006 | |
|---|---|---|---|---|
| | Females | Males | Females | Males |
| **Parent Company** | | | | |
| Board members and President | 38% | 62% | 31% | 69% |
| Group Management | 10% | 90% | 8% | 92% |
| **Subsidiaries** | | | | |
| Board members and Presidents | 11% | 89% | 10% | 90% |

## REMUNERATION POLICY AND REMUNERATION TO THE BOARD OF DIRECTORS AND TO THE GROUP MANAGEMENT

### Remuneration Policy for Group Management

The following principles for remuneration and other employment terms for Group Management were approved by the Annual General Meeting 2007.

*2007 Remuneration Policy for Group Management*

This policy covers the remuneration and other terms of employment for the Group Management Team, including the President and CEO, in the following referred to as the "Top Executives".

Remuneration of Top executives in Ericsson is based on the principles of performance, competitiveness and fairness. Different remuneration elements are suited to various degrees to reflect these principles. Therefore a mix of several remuneration elements is applied in order to reflect the remuneration principles in a balanced way.

The Top executives' total remuneration consists of fixed salary, variable components in the form of annual variable salary and long–term variable compensation, pension and other benefits. Together these elements constitute an integral remuneration package. If the size of any of the elements should be increased or decreased, at least one other element has to be decreased or increased if the competitive position of the total package should remain unchanged.

The annual report 2007 sets out details on the total remuneration and benefits awarded to the Top Executives during 2007 including previously decided long–term variable compensation that has not yet become due for payment.

*Relative importance of and variable components of the remuneration of Top Executives and the linkage between performance and remuneration*

Ericsson takes account of global remuneration practice together with the practice of the home country of each Top executive.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fixed salary is set to be competitive. Its absolute level is determined by the size and complexity of the job and year to year performance of the individual jobholder.

Performance is specifically reflected in the variable components—both in an annual variable salary and in a long–term variable portion. Although this may vary over time to take account of pay trends, currently the target level of the annual component for top executives is 30–40 percent of the fixed salary. The long–term component is set to achieve a target of around 30 percent of the fixed salary. In both cases the variable pay is measured against the achievement of specific business objectives, reflecting the judgment of the Board of Directors as to the right balance between fixed and variable pay and the market practice for compensation of executives.

The Company's cost for the short–term variable and the long–term variable components for the Top Executive group can amount to 0–125 percent of the fixed salary cost, at constant share price.

*The principal terms of variable schemes*

The annual variable salary is a cash program based on specific business targets derived from the annual business plan approved by the Board of Directors. The exact nature of the targets will vary depending on the specific job but may include financial targets at either corporate level or at a specific business unit level, operational targets, employee motivation targets and customer satisfaction targets.

Share based long–term variable plans are submitted each year for approval by the shareholders at the Annual General meeting. The payout is determined by three specific variables, the individuals' own investment in shares, a long–term financial target at corporate level, and the share price development.

*Pension*

Pension benefits shall follow the competitive level in the home country. For Top Executives in Sweden, the Company applies a defined contribution scheme for old age pension in addition to the basic pension plans on the Swedish labor market.

The retirement age is normally 60 years but can be different in individual cases.

*Other benefits*

The basic principle is that other benefits, such as company car and medical schemes, shall be competitive in the local market.

*Additional remuneration arrangements*

By way of exception, additional arrangements can be made when deemed required in order to attract or retain key competences or skills, or to make individuals move to new locations or positions. Such additional arrangement shall be limited in time and shall not exceed a period of 36 months and two times the compensation the individual concerned would have received had no additional arrangement been made.

*Notice of termination and severance pay*

For Top Executives in Sweden the mutual notice period is six months. Upon termination of employment by the Company, severance pay amounting to a maximum of 18 months fixed salary is paid. Notice of termination given by the employee due to significant structural changes or other events occurred that, in a determining manner, affect the content of work or the condition for the position, is equated with notice of termination served by the Company.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Remuneration to the Board of Directors**

*REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS DURING 2007*

| SEK | Board member fee | committee fee | Employee representative | Total |
|---|---|---|---|---|
| **Board member** | | | | |
| Michael Treschow | 3,750,000 | 250,000 | — | 4,000,000 |
| Marcus Wallenberg | 750,000 | 125,000 | — | 875,000 |
| Sverker Martin–Löf | 750,000 | 250,000 | — | 1,000,000 |
| Peter L. Bonfield | 750,000 | 250,000 | — | 1,000,000 |
| Börje Ekholm | 750,000 | 125,000 | — | 875,000 |
| Katherine M. Hudson | 750,000 | — | — | 750,000 |
| Ulf J. Johansson | 750,000 | 350,000 | — | 1,100,000 |
| Nancy McKinstry | 750,000 | 125,000 | — | 875,000 |
| Anders Nyrén | 750,000 | 125,000 | — | 875,000 |
| Carl–Henric Svanberg | — | — | — | — |
| Jan Hedlund | — | 400 | 16,500 | 16,900 |
| Monica Bergström | — | 100 | 19,500 | 19,600 |
| Torbjörn Nyman | — | 200 | 19,500 | 19,700 |
| Karin Åberg | — | — | 16,500 | 16,500 |
| Anna Guldstrand | — | — | 18,000 | 18,000 |
| Kristina Davidsson | — | — | 18,000 | 18,000 |
| Per Lindh | — | — | 2,000 | 2,000 |
| **Total** | **9,750,000** | **1,600,700** | **110,000** | **11,460,700** |
| Social security fees | | | | 3,715,559 |
| **Total** | | | | **15,176,259** |

*Comments to the table*

- The Chairman of the Board received a Board fee of SEK 3,750,000. The Chairman also received SEK 125,000 for each Board committee on which he served.
- The other Directors appointed by the Annual General Meeting received a fee of SEK 750,000 each. In addition, each Director serving on a Board committee received a fee of SEK 125,000 for each committee. However, the Chairman of the Audit Committee received a fee of SEK 350,000 and the other two members of the Audit Committee received a fee of SEK 250,000 each.
- Members of the Board, who are not employees of the Company, have not received any remuneration other than the fees paid for Board duties.
- Members and Deputy Members of the Board who are Ericsson employees received no remuneration or benefits other than their entitlements as employees. However, from the Annual General Meeting 2007 a fee of SEK 1,500 per attended Board meeting was paid to each employee representative on the Board. For Board meetings and Board committee meetings up to the Annual Meeting 2007, the previous fees of SEK 1,000 and SEK 100 respectively for each attended meeting were paid.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Remuneration to the Group Management**

*REMUNERATION PAID TO THE PRESIDENT AND CEO AND OTHER MEMBERS OF GROUP MANAGEMENT DURING 2007*

| SEK | The President | Other Members of Group Management | Total |
|---|---|---|---|
| Salary | 15,472,998 | 45,141,977 | **60,614,975** |
| Annual variable remuneration earned 2006 and paid 2007 | 8,940,002 | 17,958,448 | **26,898,450** |
| Long–term variable remuneration | 1,399,040 | 3,131,011 | **4,530,051** |
| Other benefits | 52,946 | 659,612 | **712,558** |
| **Total** | **25,864,986** | **66,891,048** | **92,756,034** |

*Comments to the table*

- The annual fixed salary for the President and CEO was adjusted from SEK 14,900,000 to SEK 15,200,000 from January 1, 2007. The salary amount stated in the table includes vacation salary.
- The Board of Directors has appointed five Executive Vice Presidents of whom one has resigned during the year. No one of these executives has during the year acted as deputy to the President and CEO. All Executive Vice Presidents are included in the group "Other members of Group Management".
- The group "Other members of Group Management" comprises the following persons: Hans Vestberg, Kurt Jofs, Bert Nordberg, Björn Olsson, Carl Olof Blomqvist, Håkan Eriksson, Marita Hellberg, Henry Sténson, Joakim Westh, Jan Wäreby and Karl–Henrik Sund–ström. Karl–Henrik Sundström left the Group Management Team on October 25, 2007, but is included for the entire year as he is fulfilling his notice period of 6 months.
- "Long–term variable remuneration" refers the value of matching shares received during 2007 under the Stock Purchase Plan 2003 and under the Performance Share Plan 2004 (the first of four quarterly matchings). The above value of matching shares for the President and CEO corresponds to 74,220 Ericsson B shares and for other members of Group Management to 164,269 Ericsson B shares. The value of matching shares is based on the share price at matching.

*REMUNERATION COSTS INCURRED DURING 2007 FOR THE PRESIDENT AND CEO AND OTHER MEMBERS OF GROUP MANAGEMENT*

| Total costs, SEK | The President | Other Members of Group Management | Total |
|---|---|---|---|
| Salary | 15,472,998 | 45,141,977 | **60,614,975** |
| Provisions for annual variable remuneration earned 2007 to be paid 2008 | 1,216,000 | 8,781,785 | **9,997,785** |
| Long–term variable remuneration | 7,281,922 | 14,325,283 | **21,607,205** |
| Other benefits | 52,946 | 659,612 | **712,558** |
| Pension premiums | 8,494,555 | 26,940,453 | **35,435,008** |
| Social security fees | 9,027,952 | 27,284,569 | **36,312,521** |
| **Total** | **41,546,373** | **123,133,679** | **164,680,051** |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*Comments to the table*

- The provisions for the annual variable remuneration 2007 correspond to 8 percent of the fixed salary for the President and CEO and to 20.3 percent for other members of the Group Management

- "Long–term variable remuneration" includes the compensation cost during 2007 for share based programs, which represent Group Management's part of total compensation costs as disclosed under "Shares for all plans".

  Under IFRS, a company shall recognize costs for share–based compensation plans to employees, being a measure of the value to the company of services received from the employees under the plans.

- For the President and CEO and other members of Group Management a defined contribution plan is applied. They were also entitled to pension in accordance with the occupational pension plan for salaried staff on the Swedish labor market (ITP) from 60 years. These pension plans are not conditional upon future employment at Ericsson.

  In the defined contribution plan, the Company pays for old age pension a contribution between 25 and 35 percent per year on salary portions in excess of 20 base amounts (during 2007, one base amount was SEK 45,900) of the executive's pensionable salary. For the President and CEO, the annual pension contribution is 35 percent of the pensionable salary above 20 base amounts. During 2007, this contribution was SEK 7,250,833 and the fee in the ITP plan SEK 1,243,722. Included in the pension premiums are also changes of commitments made to the President and CEO and the other members of Group Management for benefit based temporary disability and survival's pensions until retirement age. The pensionable salary consists of the annual fixed salary and the target value of the annual variable remuneration.

- Ericsson's commitments for benefit–based pensions per December 31, 2007, under IAS 19 amounted to SEK 940,700 for the President and CEO which refers to the ITP plan. For other members of Group Management the Company's commitments amounted to SEK 30,012,100, of which SEK 19,278,500 refers to the ITP plan and the remaining SEK 10,733,600 to temporary disability and survival's pensions until retirement age.

- Social security fees include payroll tax on pension premiums.

- For previous Presidents, the Company has made provisions for defined benefit pension plans in connection with their active service periods within the Company.

*OUTSTANDING STOCK OPTIONS AND MATCHING RIGHTS*

| As per December 31, 2007 Number of B shares | The President | Other Members of Group Management |
|---|---|---|
| Stock Option Plan 2001—May Grant | — | 595,000 |
| Stock Option Plan 2002 | — | 520,000 |
| Stock Purchase Plan 2003 (two–year), 2005 and 2006, 2007 and Performance Share Plans 2004, 2005, 2006 and 2007 | 1,153,937 | 2,207,712 |

*Comments to the tables*

- For the definition of matching rights, see description under "Long–term variable remuneration".

- The number of options presumes full exercise under applicable plans.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- For strike prices for option plans, see "Long–term variable remuneration".
- The number of matching rights presumes maximum performance matching under Performance Share Plans 2004, 2005, 2006 and 2007.

### LONG–TERM VARIABLE REMUNERATION

**The Stock Purchase Plan**

The Stock Purchase plan is designed to offer an incentive for all employees to participate, where practicable, in the Company, which is consistent with industry practice and with our ways of working. Under the plans, employees can save up to 7.5 percent (CEO 9 percent) of gross fixed salary, for purchase of class B shares at market price on the OMX Nordic Exchange Stockholm or ADRs at NASDAQ (contribution shares) during a twelve–month period (contribution period). If the contribution shares are retained by the employee for three years after the investment and the employment with the Ericsson Group continues during that time, the employee's shares will be matched with a corresponding number of class B shares or ADRs free of consideration. Employees in 88 countries participate in the plan.

The below table shows the contribution periods and participation details for ongoing plans.

| Plan | Contribution period | Number of participants at launch | Take–up rate – % of all employees |
|---|---|---|---|
| Stock Purchase plan 2003 2nd year | August 2004 – July 2005 | 15,000 | 30% |
| Stock Purchase plan 2005 | August 2005 – July 2006 | 16,000 | 29% |
| Stock Purchase plan 2006 | August 2006 – July 2007 | 17,000 | 29% |
| Stock Purchase plan 2007 | August 2007 – July 2008 | 19,000 | 26% |

It should be noted that participants save each month, beginning with August payroll, towards quarterly investments. These investments (in November, February, May and August) are matched on the third anniversary of each such investment, subject to continuous employment, and hence the matching spans over two financial years and two tax years.

**The Key Contributor Retention Plan**

The Key Contributor Retention Plan is designed to give recognition for performance and potential as well as encourage retention of key employees. Under the program, up to 10 percent of employees (2004: up to 4,500, 2005: up to 5,000, 2006: up to 6,040 and 2007: up to 6,300) are selected through a nominations process that identifies individuals according to performance, critical skills and potential. Participants obtain one extra matching share in addition to the ordinary one matching share for each contribution share purchased under the Stock Purchase Plan during a twelve–month program period. The program was introduced in 2004 and has been repeated 2005, 2006, and 2007.

**The Executive Performance Stock Plan**

The Executive Performance Stock Plan was introduced in 2004 and has been repeated 2005, 2006 and 2007. The plan is designed to focus the management on driving earnings and provide competitive remuneration. Senior executives, including Group Management, are selected to obtain up to four or six extra shares (performance matching shares) in addition to the ordinary one matching share for each contribution share purchased under the

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Purchase Plan. For the 2006 and 2007 programs, the CEO is allowed to invest up to 9 percent of fixed salary in contribution shares and may obtain up to eight performance matching shares in addition to the Stock Purchase Plan matching share for each contribution share. The performance matching is subject to the fulfillment of a performance target.

The past and continued use of average annual Earnings per Share (EPS) growth relative to challenging and stretching targets as a performance measure reflects the Company's ongoing strategy of adding shareholder value through the long–term improvement of profitability. Furthermore, the use of a constant and key financial performance measure alongside the inherent share price focus of the co–investment principle ensures close alignment with the long–term interests of shareholders whilst providing clear, transparent and continuous line–of–sight for participants. The Remuneration Committee has been satisfied that the present approach remains preferable to other measures, including those that reflect relative performance, but alternative measures are considered on an ongoing basis.

| Plan | Base year EPS1) | Target average annual EPS growth range2) | Matching share vesting range3) | Maximum opportunity as percentage of fixed salary4) |
|---|---|---|---|---|
| Performance Share Plan 2004 5) | 0.69 | 5% to 25% or<br>0.76 to 1.10 | 0 to 4<br>0 to 6 | 30%<br>45% |
| Performance Share Plan 2005 | 1.34 | 3% to 15% or<br>1.42 to 1.78 | 0 to 4<br>0 to 6 | 30%<br>45% |
| Performance Share Plan 2006 | 1.53 | 3% to 15% or<br>1.62 to 2.04 | 0 to 4<br>0 to 6<br>0 to 8 | 30%<br>45%<br>72% |
| Performance Share Plan 2007 | 1.77 | 5% to 15% or<br>1.95 to 2.36 | 0.67 to 4<br>1 to 6<br>1.33 to 8 | 30%<br>45%<br>72% |

1) Sum of four quarters up to June 30 of plan year.
2) EPS range found from three–year average EPS of the twelve quarters to the end of the performance period and corresponding growth targets.
3) Corresponding to EPS range (no Performance Share Plan matching below this range). Matching shares per contribution share invested in addition to Stock Purchase Plan matching according to program of up to 4, 6 or 8 matching shares.
4) A full investment, full vesting and constant share price. Excludes Stock Purchase Plan matching.
5) Fully vested in 2007, being matched in full over the quarterly three–year investment anniversaries in November 2007, February 2008, May 2008 and august 2008.

It is the Board of Directors' intention to repeat the stock purchase plan, the Key contributor retention plan and the executive performance stock plan for next year.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*STOCK OPTION PLANS*

| Ongoing plans Dec 2007 | Grant/Expiry date | Exercise price[1] (SEK) | Vesting period from Grant date | Number of participants at grant | Number of participants end 2007 |
|---|---|---|---|---|---|
| Stock Option Plan 2001—May Grant | 14 May 01/14 May 08 | 30.50 | 1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years | 15,000 | 7,423 |
| Stock Option Plan 2001—November Grant[2] | 19 Nov 01/19 Nov 08 | 25.70 | 1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years | 900 | 493 |
| Stock Option Plan 2002[2] | 11 Nov 02/11 Nov 09 | 7.80 | 1/3 after 1 year, 1/3 after 2 years, 1/3 after 3 years | 12,800 | 5,933 |

1) Market price at grant date—re–pricing is only permitted under limited circumstances principally relating to changes in the capital structure of Ericsson.
2) For stock options exercised during 2007, the weighted average share price was SEK 24.74.

**Shares for all plans**

All plans are funded with treasury stock. Sale of shares is recognized directly in equity. Treasury stock for all plans has been issued in a directed cash issue of Class C shares at a nominal amount of SEK 1, and purchased under a public offering at SEK 1 per share plus a premium corresponding to the subscribers' financing costs, and then converted to Class B shares.

For all plans, additional shares have been allocated for financing of social security expenses. Treasury stock is sold on the OMX Nordic Exchange Stockholm to cover the social security payments when arising due to exercise of options or matching of shares. During 2007, 2,786,761 shares were sold at an average price of SEK 21.76.

If all options outstanding as of December 31, 2007, were exercised, all shares allocated for future matching under the Stock Purchase Plan were transferred, and shares designated to cover social security payments were disposed of as a result of the exercise and the matching, approximately 283 million Class B shares would be transferred, corresponding to 1.8 percent of the total number of shares outstanding, 15,900 million. As per December 31, 2007, 231 million Class B shares were held as treasury stock.

The below table shows the number of shares (representing options and matching rights but excluding shares for social security costs) allocated for each ongoing plan and changes during 2007. It also shows compensation costs charged for each plan. The total compensation costs charged for the Long Term Variable Compensation plans during 2007 amount to SEK 496 million.

For a description of compensation costs, including accounting treatment, see note C1—"Significant Accounting Policies, Share–based employee compensation".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| Plan (million shares) | Originally designated1) | Outstanding beginning of 2007 | Granted during 2007 | Exercised/ matched during 2007 | Forfeited during 2007 | Expired during 2007 | Outstanding end of 20072) | Number of options exercisable | Compensation costs charged during 2007 |
|---|---|---|---|---|---|---|---|---|---|
| 1999 Stock Option Plan | 1.4 | 0.7 | — | — | — | 0.7 | — | — | — |
| Millennium Stock Option Plan | 71.6 | 28.4 | — | — | — | 28.4 | — | — | — |
| 2001 Stock Option Plan—May Grant | 44.9 | 23.6 | — | — | 1.3 | — | 22.3 | 22.3 | — |
| 2001 Stock Option Plan—Nov Grant | 2.6 | 1.3 | — | 0.1 | 0.1 | — | 1.1 | 1.1 | — |
| 2002 Stock Option Plan | 53.9 | 24.7 | — | 3.9 | 0.1 | — | 20.7 | 20.7 | — |
| 2003 Stock Purchase Plan (2-year plan) and 2004 Key Contributor and Performance Matching Programs | 151.7 | 27.0 | — | 11.3 | 1.2 | — | 14.53) | — | 1824) |
| 2005 Stock Purchase Plan, Key Contributor and Performance Matching programs | 31.5 | 23.6 | — | 0.6 | 0.9 | — | 22.13) | — | 1784) |
| 2006 Stock Purchase Plan, Key Contributor and Performance Matching programs | 31.8 | 5.8 | 19.6 | 0.4 | 0.7 | — | 24.33) | — | 1314) |
| 2007 Stock Purchase Plan, Key Contributor and Performance Matching programs | 35.0 | — | 9.9 | — | — | — | 9.93) | — | 54) |

1) Adjusted for split, bonus issue and rights offering when applicable.
2) All outstanding options in the 1999- and the Millennium Stock Option Plan expired during 2007.
3) Presuming maximum performance matching under the Performance Matching Program.
4) Fair value is calculated as the share price on the investment date reduced by the net present value of the dividend expectations during the three-year vesting period. Net present value calculations are based on data from external party. For shares under the performance matching programs, the Company assesses the probability of meeting the performance targets when calculating the compensation costs. Fair value of the Class B share at each investment date during 2007 was: February 15 SEK 24.27, May 15 SEK 24.05, August 15 SEK 23.00 and November 15 SEK 16.96.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### C30 RELATED PARTY TRANSACTIONS

During 2007, various transactions were executed pursuant to contracts based on terms customary in the industry and negotiated on an arm's length basis.

### SONY ERICSSON MOBILE COMMUNICATIONS AB (SEMC)

In October 2001, SEMC was organized as a joint venture between Sony Corporation and Ericsson, and a substantial portion of Ericsson's handset operations was sold to SEMC. As part of the formation of the joint venture, contracts were entered into between Ericsson and SEMC.

Major transactions are as follows:

- **Sales.** Ericsson reports sales regarding mobile phone platform design to SEMC.
- **Royalty.** Both owners of SEMC, Sony Corporation and Ericsson, receive royalties for SEMC's usage of trademarks and intellectual property rights.
- **Purchases.** Ericsson purchases mobile phones from SEMC to support contracts with a number of customers for mobile systems which also include limited quantities of phones.
- **Dividends.** Both owners of SEMC, Sony Corporation and Ericsson, receive dividends.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Related party transactions** | | | |
| Sales | **3,906** | 2,486 | 1,742 |
| Royalty | **1,837** | 1,478 | 654 |
| Purchases | **333** | 173 | 827 |
| Ericsson's share of Dividends | **3,949** | 1,160 | — |
| **Related party balances** | | | |
| Receivables | **932** | 479 | 197 |
| Liabilities | **204** | 108 | 33 |

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees toward Sony–Ericsson Mobile Communications AB.

### ERICSSON NIKOLA TESLA D.D.

Ericsson Nikola Tesla d.d. is a joint stock company for manufacturing of telecommunications systems and equipment and an associated member of the Ericsson Group. Ericsson holds 49.07 percent of the shares. Major transactions are as follows:

- **Sales.** Ericsson Nikola Tesla d.d. purchases telecommunication equipment from Ericsson.
- **Royalty.** Ericsson receives royalties for Ericsson Nikola Tesla d.d.'s usage of trademarks and intellectual property rights.
- **Purchases.** Ericsson purchases development resources from Ericsson Nikola Tesla d.d.
- **Dividends.** Ericsson receives dividends from Ericsson Nikola Tesla d.d.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Related party transactions** | | | |
| Sales | **1,010** | 867 | 880 |
| Royalty | **9** | 7 | 9 |
| Purchases | **506** | 465 | 364 |
| Dividends | **267** | 98 | — |
| **Related party balances** | | | |
| Receivables | **103** | 86 | 132 |
| Liabilities | **55** | 82 | 50 |

Ericsson does not have any contingent liabilities, assets pledged as collateral or guarantees toward Ericsson Nikola Tesla d.d.

### OTHER RELATED PARTIES

Ericsson continued the cooperation with Ericsson's owners Investor AB and AB Industrivärden in the venture capital vehicle Ericsson Venture Partners.

For information regarding the remuneration of the Group Management, see Note C29, Information regarding employees, members of the Board of Directors and Management.

### C31 FEES TO AUDITORS

| | Price-waterhouse-Coopers | Others | Total |
|---|---|---|---|
| **2007** | | | |
| Audit fees | 102 | 7 | **109** |
| Audit related fees | 4 | — | **4** |
| Tax services fees | 13 | 12 | **25** |
| Other fees | — | 6 | **6** |
| **Total** | **119** | **25** | **144** |
| **2006** | | | |
| Audit fees | 98 | 11 | 109 |
| Audit related fees | 14 | — | 14 |
| Tax services fees | 19 | 3 | 22 |
| Other fees | 1 | 3 | 4 |
| **Total** | 132 | 17 | 149 |
| **2005** | | | |
| Audit fees | 58 | 9 | 67 |
| Audit related fees | 24 | — | 24 |
| Tax services fees | 43 | 2 | 45 |
| Other fees | — | 1 | 1 |
| **Total** | 125 | 12 | 137 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the period 2005–2007, in addition to audit services, PricewaterhouseCoopers provided certain audit related services and tax services to the Company. The audit related services include consultation on financial accounting, consultation in connection with conversion to International Financial Reporting Standards (IFRS), services related to acquisitions and assessments of internal control. The tax services include general expatriate services, VAT refund services and Corporate tax compliance work.

Audit fees to other auditors consist of local statutory audits for minor companies.

KPMG are no longer auditors of the Parent Company (effective from the Annual General Meeting (AGM) 2007). Fees to KPMG during the period 2005–2006 are included in Others.

### C32 EVENTS AFTER THE BALANCE SHEET DATE

#### DIVESTMENT OF ENTERPRISE PBX SOLUTIONS

On February 18, 2008, Ericsson announced the divestment of its enterprise PBX solutions business to the Canadian company Aastra Technologies. The agreement involves transfer of approximately 630 employees of which some 360 are based in Sweden. The transaction is expected to close in April 2008.

Ericsson's enterprise PBX solutions business includes IP PBX, converged PBX systems and branch office solutions. Sales in 2007 amounted to approximately SEK 3 billion. The purchase price is SEK 650 million excluding net of assets and liabilities. A capital gain of approximately SEK 200 million is expected.

#### TORBJÖRN POSSNE APPOINTED HEAD OF ERICSSON SALES AND MARKETING

On January 25, 2008, Torbjörn Possne was appointed Senior Vice President and Head of Group Function Sales and Marketing, effective as of February 1, 2008. Torbjörn Possne joined Ericsson in 1979 and has since then held various positions within the Company.

#### PROPOSAL FOR REVERSE SPLIT 1:5 OF THE COMPANY'S SHARES

The Annual General Meeting April 9, 2008, resolved on the Board of Directors' proposal on a reverse split 1:5 of the Company's shares, implying that five A shares and five B shares respectively will be consolidated into one A share and one B share respectively.

In connection with the reverse split, the ratio between the B share and an American Depositary Share (ADS), traded on NASDAQ, will be changed to 1:1.

The record date for the reverse split is proposed to be June 4, 2008.

#### A LONG–TERM VARIABLE REMUNERATION PROGRAM 2008 AND A DIRECTED ISSUE AND BUY–BACK OF C–SHARES

The Annual General Meeting on April 9, 2008 resolved on the Board of Directors' proposal on a continued Long–Term Variable Remuneration Program 2008 which is in all material respects similar to the previous programs. The program comprises in total 99.5 million B–shares.

*Directed share issue:* Ericsson's share capital shall be increased by SEK 99.5 million by an issue of 99.5 million C–shares. The new shares shall be subscribed for by AB Industrivärden and/or Investor AB, or subsidiaries of these companies, at a subscriptions price corresponding to the ratio value of the share, i.e. SEK 1.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*Authorisation to decide on a directed offer to acquire own shares:* The Board of Directors shall be authorised to acquire 99.5 million C–shares at a price per share of no less than SEK 1 and no more than SEK 1.05 and decide on conversion of all C–shares to B–shares.

Further, the Annual General Meeting resolved on transfer of approximately 71 million shares to cover certain payments, mainly social security charges, that may occur in relation to the Global Stock Incentive Program 2001, the Stock Purchase Plan 2003, the Long–Term Incentive Plans 2004, 2005, 2006 and the Long–Term Variable Compensation Program 2007.

### SETTLEMENT IN LITIGATION WITH AUSTRALIAN COMPANY IPERNICA (FORMER QPSX)

Ericsson has settled its litigation in the Federal Court of Australia with ipernica Limited (formerly QPSX) and its affiliates.

### APPROPRIATE DISCLOSURES

Following the Company's issuance of its third–quarter profit warning, the OMX Nordic Exchange Stockholm commenced an inquiry to review whether the Company appropriately issued its profit warning and made appropriate disclosure at the 20 November 2007 management briefing that the Company's fourth–quarter sales likely would fall in the lower end of the previously forecast range. Following its review, the OMX Nordic Exchange Stockholm concluded that the Company appropriately issued its profit warning. In addition, the Exchange's Disciplinary Committee determined that Ericsson complied with the Exchange Listing Agreement in connection with the sales forecasts made during the 20 November 2007 management briefing.

### THE ANNUAL GENERAL MEETING OF SHAREHOLDERS (AGM)

The Annual General Meeting of Shareholders (AGM) resolved to approve the proposals by the Nomination Committee and the Board of Directors.

The AGM resolved not to approve a shareholder proposal that each share shall carry one vote.

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## RISK FACTORS

**You should carefully consider all the information in this annual report and in particular the risks and uncertainties outlined below. Any of the factors described below, or any other factors discussed elsewhere in this report, could have a material negative effect on our business, operational and after–tax results, financial position, cash flows, liquidity, credit rating, reputation and/or our share price. Furthermore, our operational results may have a greater variability than in the past and we may have difficulties in accurately predicting future developments. See also "Forward–looking statements".**

### RISK ASSOCIATED WITH THE INDUSTRY AND MARKET CONDITIONS

**We are subject to political, economic and regulatory risks in the various countries in which we operate.**

We conduct business throughout the world and are subject to the effects of general global economic conditions as well as conditions unique to a specific country or region. We conduct business in more than 140 countries, with a significant proportion of our sales to emerging markets in Asia Pacific, Latin America, Eastern Europe, the Middle East and Africa. We expect that sales to such emerging markets will be an increasing portion of total sales, as developing nations and regions around the world increase their investments in telecommunications. We already have extensive operations in many of these countries, which involve certain risks, including volatility in gross domestic product, civil disturbances, economic and political instability, nationalization of private assets and the imposition of exchange controls.

Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls or other governmental policies in the countries in which we conduct business could limit our operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. We also must comply with the export control regulations of the countries in which we operate and trade embargoes in force at the time of sale. Although we seek to comply with all such regulations, even unintentional violations could have material adverse effects on our business, operational results and reputation.

**We are subject to the market conditions affecting the capital and operating expenditures of our customers, making demand for our products and services highly unpredictable.**

Adverse economic conditions could cause network operators to postpone investments or initiate other cost–cutting initiatives to improve their financial position, which could result in significantly reduced capital expenditures for network infrastructure. If operator spending for network equipment and associated rollout services declines substantially, our business and operating results would suffer. We have established flexibility to cost effectively accommodate fluctuations in demand. However, if demand were to fall in the future, we may experience material adverse effects on our revenues and may even incur operating losses. If demand is significantly weaker than expected, this may have a material adverse impact on the trading price of our shares.

**Industry convergence between telecom, data and media represents opportunities but also risks**

We are affected by market conditions within the telecommunications industry. We are also affected by the convergence of the telecom–, data–, and media industries, which is largely driven by technological development related to IP–based communications. This change impacts our addressable market, competition, and our objective setting and strategies, as well as the need to consider risks to achieve our set objectives. Should we not succeed to understand the market development or acquire the necessary competence or develop and market products and solutions that are competitive in this changing market, our future results will suffer.

**Our business essentially depends upon the continued growth of mobile communications and the success of new types of services offered in broadband networks.**

Most of our business depends on continued growth in mobile communications in terms of both number of subscriptions and usage per subscriber, which in turn requires the continued deployment of our network systems by customers. In particular, we are dependent on operators in highly penetrated markets to successfully introduce services that cause a substantial increase in usage for both voice and data. In emerging markets, we are, to a certain extent, dependent on the availability of lower–cost handsets in addition to affordable tariffs by operators to support a continued increase of mobile subscribers. If operators are not successful in their attempts to increase the number of subscribers and/or stimulate increased usage, our business and operational results could be materially adversely affected.

Fixed and mobile networks converge and new technologies, such as IP and broadband, enable operators to deliver a range of new types of services in both fixed and mobile networks. We are dependent upon the market acceptance of such services, e.g. IPTV, and on the outcome of regulatory and standardization activities in this field, such as spectrum allocation. If delays in standardization or market acceptance occur, this could adversely affect our business and operational results.

**Changes in the regulatory environment for telecommunications systems and services could negatively impact our business.**

Telecommunications is a regulated industry and regulatory changes affect both our customers' and our operations. For example, changes in regulations that impose more stringent, time–consuming or costly planning, zoning requirements or building approvals regarding the construction of radio base stations and other network infrastructure could adversely affect the timing and costs of new network construction or expansion and the commercial launch and ultimate commercial success of these networks. Similarly, tariff regulations that affect the pricing of services offered by operators could also affect their ability to invest in network infrastructure, which in turn could affect the sales of our systems and services. Radio frequency spectrum allocation between different types of usage may affect operator spending adversely or force us to develop new products to be able to compete in such market.

License fees, environmental, health and safety, privacy and other regulatory changes may increase costs and restrict operations of network operators and service providers. The indirect impact of such changes could affect our business adversely even though the specific regulations may not directly apply to our products or us.

**Consolidation among network operators may increase our dependence on a limited number of key customers.**

The market for mobile network equipment is highly concentrated, with the 10 largest operators representing more than 40 percent of the total market. Network operators have undergone significant consolidation, resulting also in a significant number of operators with activities in several countries. This trend is expected to continue, while also intra–country consolidation is likely to accelerate as a result of competitive pressure.

A market with fewer and larger operators will increase our reliance on key customers and, due to the increased size of these companies, may negatively impact our bargaining position and profit margins. Moreover, if the combined companies operate in the same geographic market, networks may be shared and less network equipment and associated services may be required. Another possible consequence of customer consolidation is that it could cause a delay in their network investments while they negotiate merger/acquisition agreements, secure necessary approvals, or are constrained by efforts to integrate the businesses. A recent development is also that network operators, without legal consolidation but through cooperation agreements, share parts of their network infrastructure, which may adversely affect demand for network equipment.

**Consolidation among equipment and services suppliers may lead to increased competition and a different competitive landscape.**

Industry consolidation among equipment suppliers could potentially result in stronger competitors that are competing as end–to–end suppliers as well as competitors more specialized in particular areas. Consolidation may also result in competitors with greater resources, including technical and engineering resources, than we have or reduce existing scale advantages for us. This could have a material adverse effect on our business, operating results, and financial condition.

**We operate in a highly competitive industry, which is subject to competitive pricing and rapid technological change.**

The markets for our products are highly competitive in terms of pricing, functionality and service quality, the timing of development and introduction of new products and services and terms of financing. We face intense competition from significant competitors, and Chinese companies in particular, have become relatively stronger in recent years. Our competitors may implement new technologies before we do, allowing them to offer more attractively priced or enhanced products, services or solutions, or may offer other incentives that we do not provide. Some of our competitors may have greater resources in certain business segments or geographic markets than we do. We may also encounter increased competition from new market entrants, alternative technologies or evolving industry standards. The rapid technological change also results in shorter life–cycles for products, increasing the risk in all product investments. Our operating results significantly depend on our ability to compete in this market environment, in particular on our ability to introduce new products to the market and to continuously enhance the functionality while reducing the cost of new and existing products, in order to cope with the continuous price erosion that is a result of the rapid technological change.

**Our current and historical operations are subject to a wide range of environmental, health and safety regulations.**

We are subject to certain environmental, health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. We believe that we are in compliance with all material environmental, health and safety laws and regulations related to our products, operations and business activities. However, there is a risk that we may have to incur expenditures to cover environmental and health liabilities to maintain compliance with current or future environmental, health and safety laws and regulations or to undertake any necessary remediation. It is difficult to reasonably estimate the future impact of environmental matters, including potential liabilities due to a number of factors especially the lengthy time intervals often involved in resolving them.

**Liability claims related to and public perception of the potential health risks associated with electromagnetic fields could negatively affect our business.**

The mobile telecommunications industry is subject to claims that mobile handsets and other telecommunications devices that generate electromagnetic fields expose users to health risks. At present, a substantial number of scientific studies conducted by various independent research bodies have indicated that electromagnetic fields, at levels within the limits prescribed by public health authority safety standards and recommendations, cause no adverse effects to human health. However, any perceived risk or new scientific findings of adverse health effects of mobile communication devices and equipment could adversely affect us through a reduction in sales. Although Ericsson's products are designed to comply with all current safety standards and recommendations regarding electromagnetic fields, we cannot assure you that we or the jointly owned Sony Ericsson Mobile Communications will not become the subject of product liability claims or be held liable for such claims or be required to comply with future regulatory changes that may have an adverse effect on our business. See also "Legal and Tax proceedings" in the Board of Directors' Report.

## STRATEGIC AND OPERATIONAL RISKS

**Short–term volatility in business mix may have impact on sales and gross margins**

Our sales to network operators are a mix of equipment, software and services, which normally generate different gross margins.

Telecom network solutions are delivered in three different ways:

- as initial network buildouts, including equipment, software and network rollout services, and often also significant amounts of civil works and/or third–party products with lower gross margins than own products;

- as subsequent network expansions (added geographical coverage or increased capacity) and upgrades to higher functionality, where the deliverables include higher shares of software and less rollout services and therefore normally have higher margins; and

- as professional services, which have lower gross margins than equipment and software.

As a consequence, reported gross margin in a specific period will be affected by the overall mix of equipment, software and services as well as the relative content of third party products.

Network expansions and upgrades have much shorter leadtimes for delivery than initial network buildouts. Such orders are normally placed with short notice by customers, i.e. less than a month, and consequently, variations in demand are difficult to forecast. As a result, changes in our product and service mix may affect our ability to forecast and may also impact our ability to detect in advance whether actual results will deviate from those forecasted.

**Most of our business is derived from a limited number of customers.**

We derive most of our business from large, multi–year network build–out agreements with a limited number of significant customers. Although no single customer currently represents more than 10 percent of sales, the loss of, or a reduced role with, a key customer for any reason could have a significant adverse impact on sales, profit and market share for an extended period.

**Some long–term frame agreements expose us to risks related to agreed future price reductions or penalties.**

Long–term agreements are typically awarded on a competitive bidding basis. In some cases, such agreements also include commitments to future price reductions. In order to maintain the gross margin even with such lower prices, we continuously strive to reduce the costs of our products. We reduce costs through design improvements and other changes to benefit from new technical development, resulting in for example reduced component prices and productivity in production. However, there can be no assurance that our actions to reduce costs will be sufficient or timely to maintain our gross margin in such contracts.

Frame agreements often also provide for penalties and termination rights in the event of our failure to deliver ordered products on time or if our products do not perform as promised, which may affect our results negatively.

**We expend significant resources on product and technology R&D which may not be successful in the market.**

Developing new products or updating existing products and solutions requires significant levels of financial and other commitments to research and development, which may not always result in success. We are also actively engaged in the development of technology standards that we are incorporating into our products and solutions. In order to be successful, those standards must be accepted by relevant standardization bodies and by the industry as a whole. Our sales and earnings may suffer if we invest in development of technologies and technology standards that do not function as expected, are not adopted in the industry or are not accepted in the marketplace within the timeframe we expect, or at all.

Please also see section "Research and Development" in the Board of Directors' Report and in Information on the Company.

**We make strategic acquisitions to get access to technology, competence or new markets**

In our industry, which requires huge investments in technology and at the same time is exposed to rapid technological and market changes, we make strategic investments in order to obtain various benefits, e.g. to reduce time to market, to gain access to technology and/or competence, to increase our scale or to broaden our product portfolio or expand our customer base. There are no guarantees that such acquisitions are successful or that we succeed in integrating the acquired entities to gain the expected benefits at all or in the timeframe we expect.

**We enter into joint ventures, strategic alliances and third party agreements to offer complementary products and services.**

If our partnering arrangements fail to perform as expected, whether as a result of having incorrectly assessed our needs or the capabilities of our strategic partners, our ability to work with these partners or otherwise, our ability to develop new products and solutions may be constrained and this may harm our competitive position in the market. Additionally, our share of any losses from, or commitments to contribute additional capital to, joint ventures may adversely affect our financial position or results of operations.

Our solutions may also require us to license technologies from other companies and successfully integrate such technologies with our products. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, or at all. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non–exclusive basis could limit our ability to protect our proprietary rights in our products.

**Our products incorporate intellectual property rights (IPR) developed by us that may be difficult to protect or may be found to infringe on the rights of others.**

While we have been issued a large number of patents and other patent applications are currently pending, there can be no assurance that any of these patents will not be challenged, invalidated, or circumvented, or that any rights granted under these patents will in fact provide competitive advantages to us.

The European Union recently considered placing restrictions on the patentability of software. Although the European Union ultimately rejected this proposal, we cannot guarantee that they will not revisit this issue in the future. We rely on many software patents, and any limitations on the patentability of software may materially affect our business.

We utilize a combination of trade secrets, confidentiality policies, non–disclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect our intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, we may not be able to detect unauthorized use or take appropriate and timely steps to establish and enforce our proprietary rights. In fact, existing laws of some countries in which we conduct business offer only limited protection of our intellectual property rights, if at all.

Many key aspects of telecommunications and data network technology are governed by industry–wide standards, which are usable by all market participants. As the number of market entrants as well as the complexity of the technology increases, the possibility of functional overlap and inadvertent infringement of intellectual property rights also increases. Third parties have asserted, and may assert in the future, claims against us alleging that we infringe their intellectual property rights. Defending such claims may be expensive, time consuming and divert the efforts of our management and/or technical personnel. As a result of litigation, we

could be required to pay damages and other compensation, develop non–infringing products/technology or enter into royalty or licensing agreements. However, we cannot be certain that any such licenses, if available at all, will be available to us on commercially reasonable terms.

**Adverse resolution of litigation may harm our operating results or financial condition.**

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, reputation, operating results, or financial condition.

As a publicly listed company, Ericsson is exposed to class–action lawsuits, in which plaintiffs allege that the Company or its officers have failed to comply with securities laws, stock market regulation or any other laws, regulations or requirements. Whether or not there is merit to such claims, the time and costs incurred to defend the Company and its officers and the potential settlement or compensation to the plaintiffs may have significant impact on our reported results and reputation. For additional information regarding certain of the lawsuits in which we are involved, see “Legal and Tax Proceedings” in the Board of Directors’ Report.

**We rely on a limited number of suppliers for the majority of our components and electronic manufacturing services.**

Our ability to deliver according to market demands depends in large part on obtaining timely and adequate supply of materials, components and production capacity on competitive terms. Failure by any of our suppliers could interrupt our product supply and could significantly limit our sales or increase our costs. If we fail to anticipate customer demand properly, an over/undersupply of components and production capacity could occur. In many cases, some of our competitors also utilize the same contract manufacturers, and we could be blocked from acquiring the needed components or from increasing capacity if they have purchased capacity ahead of us. This factor could limit our ability to supply our customers or could increase our costs. At the same time, we commit to certain capacity levels or component quantities, which, if unused, will result in charges for unused capacity or scrapping costs.

**We are dependent upon hiring and retaining highly qualified employees.**

We believe that our future success depends in large part on our continued ability to hire, develop, motivate and retain engineers and other qualified personnel needed to develop successful new products, support our existing product range and provide services to our customers. Competition for skilled personnel and highly qualified managers in the telecommunications industry remains intense. We are continuously developing our remuneration and benefit policies as well as other measures. However, we may not be as successful at attracting and retaining such highly skilled personnel in the future.

**We are dependent on access to short–term and long–term capital.**

If we do not generate sufficient amounts of capital to support our operations, service our debt, continue our research and development and customer financing programs or we cannot raise sufficient amounts of capital at the times and on the terms required by us, our business will likely be adversely affected. Access to short–term funding may decrease or become more expensive as a result of our operational and financial condition and market conditions or due to deterioration in our credit rating. We cannot assure you that additional sources of funds will be available or available on reasonable terms.

**As a Swedish company operating globally, we have substantial foreign exchange exposures.**

With the majority of our cost base being Swedish krona (SEK) denominated and a very large share of sales in currencies other than SEK, and many subsidiaries outside Sweden, our foreign exchange exposure is